ANNUAL REPORT

for the fiscal year

ended 31 March 1986

Alberta

SECURITIES COMMISSION

THE ALBERTA SECURITIES COMMISSION
ANNUAL REPORT 1985/86

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Alberta
CONSUMER AND CORPORATE AFFAIRS

Office of the Minister

104 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report prepared by the Chairman of the Alberta Securities Commission for the year ending March 31, 1986.

Respectfully submitted,

Elaine J. McCoy
Minister of Consumer and Corporate Affairs

Alberta
SECURITIES COMMISSION

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The Honourable Elaine McCoy
Minister of Consumer and Corporate Affairs

Madam:

I have the honour to submit the Annual Report of the Alberta Securities Commission for the year ended March 31, 1986.

Respectfully submitted,

W. T. Pidruchney, Q.C.
Chairman
Alberta Securities Commission

ANNUAL REPORT

1. PURPOSE

The principal purpose of the Alberta Securities Commission (the "Commission") is to regulate the securities industry and capital markets in the Province of Alberta through administration of the Alberta Securities Act, the Alberta Franchises Act and the regulations under those Acts. This mandate is effected largely by the strict requirements of those Acts and regulations, by policies issued by the Commission, and by enforcement action taken against those who violate those Acts, regulations and policies.

In addition, the Commission has legislative authority for administration of the Deposits Regulation Act which covers the solicitation of deposits from the public in certain stated circumstances by persons or organizations not otherwise regulated by other government bodies.

2. ORGANIZATION OF THE COMMISSION

The Commission is a two-tiered structure consisting of a Commission Board ("Board") and the Commission staff ("Staff").

2.1 The Board

The Board comprises a full-time Chairman and five part-time Commissioners appointed from the general public. The Chairman of the Board, William T. Pidruchney, Q.C., is the chief executive officer of the Commission. The Board consists of Patrick J. Cashion, C.A., Norman F. Elsey and Robert G. Donlevy, of Calgary; William T. Pidruchney, Q.C. and Edward B. Allan, F.C.A., of Edmonton; and Douglas R. Craig, P. Eng., of Carbon.

The Board establishes policies for administration of the Securities and Franchises Acts, serves as a quasi-judicial tribunal in conducting administrative hearings, and serves as an appeal body where required by those statutes.

In addition, the Board is designated as a hearing tribunal pursuant to other legislation including the Alberta Business Corporations Act and the Investment Contracts Act.

The Board meets at regular intervals, alternately in Edmonton and Calgary and holds additional meetings and hearings when and where required.

2.2 The Staff

At the end of March, 1986, the staff of the Commission numbered 54 full-time employees and four lawyers seconded from the Department of the Attorney General. One position was deleted in the year to meet manpower restraint requirements.

The Staff is organized into four sections:

2.2.1 The Securities section, which reviews prospectuses and other documents relating to the distribution of securities to the public;

2.2.2 The Franchises section, which reviews prospectuses for the distribution of franchises to the public;

2.2.3 The Enforcement section, which conducts investigations and carries out enforcement proceedings;

2.2.4 The Registration and Administration section, which attends to the registration of salesmen, dealers and advisers and attends to logistical requirements of the Commission.

The Commission has an office in Edmonton and an office in Calgary; the main office and majority of staff are in Edmonton. The Calgary office has three investigators and two secretaries, and is attended on a regular basis by the Commission Board, the Chairman, the Director, Deputy Directors and members of the legal staff.

3. ACTIVITIES AND OPERATIONS

Levels of activity remained high throughout the fiscal year. Filings of preliminary prospectuses increased by 27% over the previous year, while the overall increase in all filings was 7%.

The Commission operated within the guidelines of reduced budget and manpower allocation. The Commission continuously reviews its activities in light of the government's objectives to eliminate unnecessary regulation and to be more sensitive to the needs of the public. The management planning committee and regular management meetings assisted in meeting these objectives.

The Commission publishes a Weekly Summary, available to subscribers, which contains information on Commission orders, rulings, notices, new policies, insider trading activity and other matters of interest to the public.

The Commission continued work on special projects including its review and updating of the Regulations to the Securities Act and its review and total re-writing of the Commission's policies, notices and blanket orders.

The Commission continued its "experience-sharing" secondment program in which individuals from investment industry related firms work for up to a year at the Commission to gain insight into the regulatory process.

As a member of the Canadian Securities Administrators (the "CSA"), the Commission participated in that group's regular semi-annual meetings. This informal association of all provincial securities regulators in Canada works toward nation-wide compatibility and uniformity of regulation through the development of national and uniform policies adhered to by the signatory Commissions. The semi-annual Spring meeting of administrators was held in Toronto, May 7-10, 1985; the semi-annual Fall meeting was held in Calgary, October 1-3. Both meetings were chaired by the Chairman of the Alberta Securities Commission. The Fall meeting was held in conjunction with the semi-annual meeting of the North American Securities Administrators Association.

The Commission is a member of the North American Securities Administrators Association (NASAA) and is represented at its semi-annual meetings. NASAA provides a window on all securities activities in the United States and in Mexico. The Alberta Securities Commission hosted the NASAA 1985 fall conference in Calgary.

The Alberta Stock Exchange comes within the regulatory scope of the Securities Act and the Commission maintains a close contact and a good working relationship with the Board of Governors and the administration of the Exchange.

Regular communication is also maintained with the Investment Dealers Association of Canada, through both its national office in Toronto and its Alberta District Council office in Calgary. The resulting co-operation provides an effective regulatory framework for the investment industry.

Lawyers who practice securities law in the Alberta are organized into two securities bar groups located in Edmonton and Calgary under the auspices of the Canadian Bar Association. In addition to conducting regular meetings for their own purposes, they at times assist in the teaching of securities law at the universities in Calgary and Edmonton and during the year assisted the Commission by reviewing and commenting on proposed amendments to the Regulations under the Securities Act.

The Commission continues to communicate with the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Alberta in matters of mutual interest such as the ongoing development of and revisions to generally accepted accounting principles and generally accepted auditing standards for incorporation in the C.I.C.A. Handbook.

In addition to the outside associations and groups mentioned above, the Commission keeps in close touch with and enjoys the co-operation of numerous other agencies, among them the Toronto Stock Exchange, the Montreal Exchange, the Vancouver Stock Exchange, the Canadian Depository for Securities, the Winnipeg Commodities Exchange and the Investment Funds Institute.

While Alberta continues to be the only Province in Canada to have separate Franchise legislation, the majority of American states have such legislation, the North American Securities Administrators Association has a franchise subsection and there is an active Canadian Association of Franchisors. In addition to serving the residents of Alberta on franchise matters, the Commission continues to field questions on franchise legislation from government bodies and citizens of other provinces.

4. THE SECURITIES ACT

The definition of securities is very broad, but the more common forms are stocks, bonds, debentures and notes. It may also include the sale of partnership interests, investment contracts and tax shelters of various types. The main purpose of the Securities Act is to require issuers of securities to provide to members of the investing public who trade in securities, full, true and plain disclosure of all material information relating to the issuer, its activities (current and historical) and its officers and directors and the securities being offered in order that investors may make an informed business judgment when purchasing new securities.

4.1 Regulation of Securities

Before an issuer is permitted to sell securities from its treasury to the public, written information must be presented to the purchaser prior to the actual sale. This material can take a number of forms. The most frequently used documents are prospectuses, statements of material facts, rights offerings, and take-over bid circulars. The structure of the issuer can vary significantly and can be a corporate entity, a limited or general partnership, or a joint venture or syndication. In addition, security offerings may be structured using a combination of the various forms of entities.

The Commission's securities section reviews these offering documents to determine that the issuer has complied with the securities legislation, its regulations and Commission policies and practices. Only after the Commission's securities staff have completed a review and the offering documents have been accepted for filing are new securities permitted to be sold to the public. In addition, securities previously issued by way of exemption may also be permitted to be sold as a secondary offering along with the primary offering of shares from treasury.

Subsequent to finalizing and clearing a prospectus or certain other offering documents related to the sale of securities, an issuer becomes a reporting issuer and must provide to its equity security holders annual reports, interim and annual financial statements, and notices of annual meetings. Insiders of an issuer must report to the Commission all trades they make in securities of the issuer in their own personal capacity.

In addition to the above forms of offering securities to the public, the Securities Act provides a large number of exemptions through which issuers may sell securities to the public. The documents required to be filed with the Commission in connection with the use of these exemptions are not reviewed by the staff of the Commission.

4.2 New Items

A number of issues were offered by way of prospectus which involved a novel concept labelled "sub-division" offerings which are made through a corporate structure and which, in substance, permit investors in the corporate entity to choose between receiving the dividend stream or the capital appreciation arising from the underlying securities acquired for this purpose by the corporate entity.

The Commission liased with the department of the Provincial Treasurer and provided input into the draft Alberta Stock Savings Plan legislation. Notwithstanding the legislation had not received royal assent, a number of prospectus filings were made with the Commission which disclosed that the issue would qualify for the Alberta Stock Savings Plan pursuant to a provisional certificate issued by the Provincial Treasurer. It was anticipated that when the legislation received Royal Assent, a large number of issuers would take advantage of the Plan.

The Alberta Stock Exchange and the Commission formed a committee to develop and implement a filing system that will permit junior issuers more timely and less costly access to the Alberta capital markets. The form of prospectus to be used is to be called the Alberta Stock Exchange-Exchange Offering Prospectus. Several meetings were held and the process is well under way to completion. It is anticipated that this system, when in place and coupled with the Alberta Stock Savings Plan, will provide an efficient and accessible system for junior issuers within the Province of Alberta.

The Commission has, for some time, been in a major process of updating its old policies and formulating new policies. This process has now been substantially completed and new policies as well as the updated policies should be in place within the next fiscal year.

The Commission has participated as advisors to the Department of Consumer and Corporate Affairs, Consumer Education and Information. The Department Sponsored Program provides education in various fields, particularly that of investments. This comprehensive program comprises a fourteen-part series to be aired on the ACCESS T.V. Network.

4.3 Statistics

Statistically, prospectus filings in the 1985/86 fiscal year increased by 27% for preliminary prospectuses and by 4% for renewal prospectuses, representing an overall increase of 18% from the level of filings received in the 1984/85 fiscal year. The increase in volume of prospectuses results from the economic upturn in the Canadian economy as a whole. It is anticipated that the volume of filings will continue to increase in the next fiscal period.

4.4 Regulation of Registration

Subject to the exemptions from registration found in sections 65 and 66 of the Securities Act, registration is required before securities are traded with the public, whether the securities are in the form of common or preferred shares, mutual fund shares, bonds, debentures, term certificates or notes.

Through the registration of a company and its officers, directors and salesmen, the Commission strives to allow only trustworthy and knowledgeable individuals to deal with the public. Corporate registrants must at all times meet financial standards set by the Commission. In some cases companies and/or individuals must obtain bonding.

The two broad categories of registration are dealers and advisers. Dealers buy and sell securities as principals and agents, while advisers offer investment advice and/or manage investments. Five new dealers (four mutual fund dealers and one securities dealer), two underwriters and one securities adviser were registered in 1985/86. These new firms enhance Alberta's importance as a financial center, and offer Alberta investors alternatives in their selections of investments and markets. This activity brought the total number of dealers and advisers registered in Alberta in the 1985/86 fiscal year to 117.

The total number of salesmen registered under The Securities Act at year-end was 1,561, an increase of approximately 7% from the previous year-end.

As the end of the fiscal year approached, plans were being made to transfer some registration responsibilities to the Alberta Stock Exchange and the Alberta District of the Investment Dealer's Association. These self-regulatory bodies are responsible, as of April 1, 1986, for the registration, renewal of registration and amendments thereto, of their own members and registered representatives. This transfer consisted of 28 dealers and 746 registered representatives, and is part of a continuing effort to transfer responsibility for the regulation of the securities industry to the industry itself.

The Commission staff regularly monitor those dealers who are not members of a self-regulatory body recognized by the Commission to ensure such dealers maintain the required net free capital and follow prudent business practices. This function serves as a preventive measure and assists in related enforcement matters.

4.5 Enforcement

4.5.1 Objectives

The goal of Securities Act enforcement is the maintenance of a fair and efficient public capital market. Under this philosophy, the Enforcement Section of the Commission performs a multi-faceted role. While not directly involved in the disclosure review process of securities offering documents, the Enforcement Section undertakes educational/preventive policing programs, surveys the securities market, monitors statutory filings, and conducts investigations into violations of the Alberta Securities Act and Franchises Act. As the "sharp end" of the Commission, the Enforcement Section initiates appropriate enforcement procedures, including administrative and disciplinary procedures before the Director or the Commission Board, and the conduct of prosecutions in the courts.

4.5.2 Staffing

With an authorised staff slate of 13 positions, Enforcement Section personnel staff both the Edmonton headquarters office and the Calgary investigations and part-time executive offices. The Enforcement Section presently comprises a Deputy Director in charge of enforcement, two investigative accountants, six investigators, a disclosure technician and three support staff.

4.5.3 Enforcement Activities

Table "A" hereunder details the number of formal enforcement proceedings initiated before Commission administrative tribunals and before the courts under the Securities Act and the Franchises Act during the 1985/86 fiscal year:

Table "A"

	Proceedings	Totals			
1.	Questioning fitness for initial registration (Securities Act section 55)	2			
2.	Questioning fitness for continued registration (Securities Act, section 56)	0			
3.	Prosecutions	Counts Laid	Convictions	Dismissals	Withdrawn Or Stayed
	Securities Act (S.A.)	85	6	0	10
	Franchises Act (F.A.)	19	3	0	1
4.	Cease Trading Orders	Interim	Permanent	Revocation	
	(Securities Act, Sec. 165)	64	67	19	
5.	Denial of Exemptions (Securities Act, Sec. 166)	0			

4.5.4 Supplementary Programs

Certain supplementary enforcement programs as shown in Table "B" are maintained to police the securities marketplace. These activities are in addition to over 6,920 man hours devoted to general investigations.

TABLE "B"

	Supplementary Enforcement Program	TOTALS
1.	Insider Trading Reports	
	follow-up enquiries initiated	73
2.	Director and officer background checks	89
3.	Exemption Application (Sec. 116 and 145) reviews	188
4.	Media Surveillance: follow-up enquiries initiated	63
5.	Review of originating Exchange listed reporting issuers	55

4.5.5 Investor Alert Series

In co-ordination with the Better Business Bureau, Enforcement Section publishes a quarterly "Investor Alert" bulletin for free distribution in the Commission's offices and in the Regional offices of the Department of Consumer and Corporate Affairs. The following titles were published during the 85-86 fiscal year:

Fraud and Abuse in the Financial Planning Industry

Strip or Zero Coupon Bonds

The Renaissance of Ponzi Scams

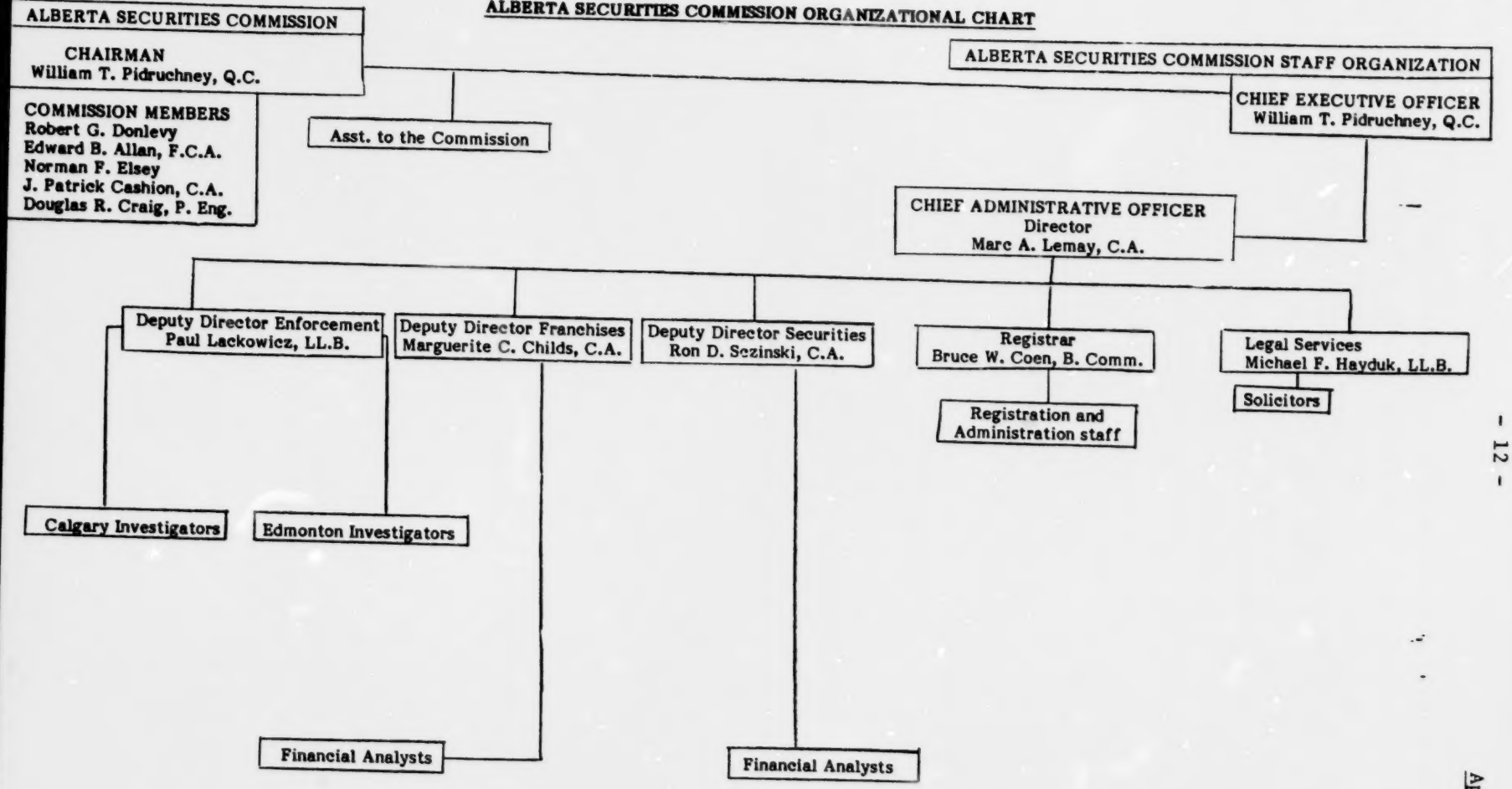
5. THE FRANCHISES ACT

The purpose of the Franchises Act is to provide to a potential franchise investor, full, true and plain disclosure of information with respect to the franchisor and the proposed franchise business in order that the investor can make an informed investment decision. Similar to the requirements of the Securities Act, salesmen marketing franchises are required to be registered and companies selling franchises are required to file a disclosure document. This document, which is either a prospectus or statement of material facts, is reviewed by the Commission staff.

Filings received for registration, exemption from registration, extension and amendments in the 1985/86 fiscal year increased 8% over those received in 1984/85. There were 185 applications for registration or exemption from registration in 1985/86. Applications for salesmen's registrations received in 1985/86 increased 16% over those received in 1984/85.

The Franchises Act was proclaimed in effect on November 16, 1972. The Commission staff has offered advice to officials of other jurisdictions now contemplating the introduction of franchise legislation to assist in uniformity among the provinces.

ALBERTA SECURITIES COMMISSION ORGANIZATIONAL CHART



Appendix 6.1

ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION

Applications Received Securities Act	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/1986	Percentage change 84/85 to 85/86
Dealer Registrations	98	96	103	121	132	143	127	117	119	117	-2%
Amendments to Dealer Registrations	168	146	182	223	217	238	219	200	228	260	14%
Preliminary Prospectuses	115	107	124	192	270	283	231	291	231	293	27%
Renewal Prospectuses	120	106	108	125	115	150	116	130	139	145	4%
Sundry Filings	224	410	439	658	765	747	1,063	1,442	1,327	1,445 (1)	9%
Salesman Registrations	672	706	730	791	978	1,175	1,177	1,428	1,455	1,561	7%
Salesman Transfers	23	56	21	38	40	137	234	227	223	128	-43%
Orders and Rulings	220	192	335	458	637	752	832	857	715	774	8%
	1,640	1,819	2,042	2,606	3,154	3,625	3,999	4,692	4,437	4,723	6%
Franchises Act											
Prospectuses	28	49	59	96	121	128	105	100	99	117	18%
Application For Exemption	38	53	52	49	51	54	63	74	69	68 (2)	-1%
									168	185	10%
Miscellaneous Applications									47	34	-28%
Salesman Registration	34	67	88	122	160	157	146	162	185	214	16%
	100	169	199	267	332	339	314	336	400	433	8%
	1,740	1,988	2,241	2,873	3,486	3,964	4,313	5,028	4,837	5,156	7%
Budget Summary (3)	$515,753	607,465	1,102,430	1,962,590	2,712,965	3,731,289	3,823,170	3,086,445	2,810,570	2,741,600	-2.5%
Manpower											
Permanent Positions	27	27	41	49	56	59	59	57	55	54	
Lawyers seconded from the Attorney General	—	—	—	1	2	3	3	3	4	4	
	27	27	41	50	58	62	62	60	59	58	

Notes (1), (2) and (3) - see page 14

Appendix 6.2 - continued

ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION -REFERENCE NOTES

Note 1. Securities Act Sundry Filings - 1985/86

Summary Statements	12
Annual Information Statements	222
Rights Offerings	49
Statements of Material Facts	1
Amendments to Prospectuses and Statements of Material Facts	49
Take-Over Bids	71
Filings made under the closed system - Section 107, 110, 112	1,041
	1,445

Note 2. Franchise Statements of Material Facts - 1985/86

Section 2 - Applications for Statutory Exemptions	44
Section 3 - Applications for Discretionary Exemptions	24
	68

Note 3. Budget Summary

Includes special warrants in the fiscal periods ended in 1980, 1981, 1982, and 1983.

Appendix 6.3

POLICIES AMENDED OR IMPLEMENTED DURING 1985/86

6.3.1 ASC Policy 3-29 (New): Registration of Non-Resident Salesmen, Partners or Officers of Registered Dealers.

This new policy allows, under certain conditions, the registration of non-resident individuals to sell securities in Alberta.

6.3.2 ASC Policy 3-23 (Amended): Prompt Offering Qualification System.

The amendment to this policy requires reporting issuers who file a short form prospectus to ensure that all comparative financial statements are incorporated by reference into the short form prospectus.